



Thursday, 02 July 2020

Rates: Fed wants stronger forward guidance, but not by YCC

German Bunds underperformed US Treasuries in what was still a technical move. FOMC Minutes revealed willingness to strengthen forward guidance on interest rates and/or asset purchases, but not so by introducing yield curve control. Yesterday's swings in US ADP suggest difficulties to both predict and interpret today's US payrolls.

Currencies: dollar fails to extend upside momentum

Sentiment on risk yesterday improved throughout the day and eased the bid for the dollar yesterday. Another test of the EUR/USD 1.12 area was rejected. USD/JPY also joined the broader USD correction. Today, a solid US payrolls report probably won't help the dollar. Global sentiment dominates FX trading. EUR/GBP is correcting lower, nearing the 0.90 support.

Calendar

Headlines

S&P	↗
Eurostoxx 50	→
Nikkei	→
Oil	↗
CRB	↗
Gold	↓
2 yr US	→
10 yr US	→
2yr DE	↗
10 yr DE	↑
EUR/USD	→
USD/JPY	↘
EUR/GBP	↘

- **US equities** closed mixed-to-positive. Tech surged thanks to positive vaccine developments. Nasdaq (+0.95%) set a new all-time high even as virus cases soar. **Asian-Pacific markets** inch higher in lockstep. Australia (+1.65%) outperforms.
- **California** banned indoor dining in some areas after recording **record infections**. **NY delayed a scheduled reopen** of such services. **Arizona reported a record rise** in cases & emergency room visits. **Houston** (Texas) hospitals **reach overcapacity**.
- **Fed minutes showed growing consensus among the governors to provide more guidance** to its monetary policy intentions though refrained from giving a timing for such a move. Officials showed **no readiness to for yield curve control**.
- **Irish finance minister and potential head of the Eurogroup Donohoe warned the EU against going it alone with a digital levy** as it risks stoking trade tensions. He said talks between the US, EU and OECD are paused rather than stopped.
- **ECB's Rehn said the large take-up of the TLTROs is a good thing** and will hopefully be reflected in an easing of monetary conditions. Though there are risks that the funds will be used to offer credit to zombie firms.
- **The US House of Representatives** unanimously **passed a bill imposing sanctions on banks doing business with Chinese officials involved in suppressing HK demonstrations**. The bill is expected to be approved by the Senate today.
- **Today's economic calendar** contains key US labour data with nonfarm payrolls due a day earlier than usual and weekly/continuing jobless claims. France and Spain sell bonds. Several ECB speeches are due.

Rates

Fed wants stronger forward guidance, but not by YCC

	US yield	-1d
2	0.16	0.01
5	0.30	0.02
10	0.68	0.02
30	1.42	0.01

	DE yield	-1d
2	-0.66	0.03
5	-0.64	0.06
10	-0.40	0.06
30	0.06	0.05

German Bunds underperformed US Treasuries yesterday. The move started late on Thursday on a technical footing following **the rejected test of -0.485% support in the German 10-yr yield.** **Core bonds later reacted asymmetric to risk sentiment.** They initially couldn't profit from weaker European stocks, but later suffered as risk sentiment made an intraday U-turn following positive signs of early trials of experimental coronavirus vaccines. **Positive surprises from June US ADP employment report and manufacturing ISM didn't impact trading.** It's hard to draw forward looking conclusions given the current exponential rise in US COVID-19 cases which forces US states to pause, delay or reverse the economic reopening. It was nevertheless striking that US Treasuries came off worst intraday levels immediately after the data. German yields added 3.2 bps (2-yr) to 6 bps (10-yr) in a daily perspective. Peripheral yield spreads vs Germany narrowed by 5/6 bps Spain/Italy and by 9 bps for Greece. US yields added 1.2 bps (30-yr) to 2.4 bps (5-yr) with the belly of the curve outperforming the wings.

FOMC Minutes of the June Fed meeting revealed that introducing yield curve control isn't on top of Fed governors' minds. More study on the issue is needed, though participants indicated that the Australian variant (3y) is most relevant. **Fed governors do agree on finetuning forward guidance. It's an open debate whether this should focus on policy rates and/or asset purchases. Discussion also remains on the form: tying it to economic metrics (unemployment rate or inflation) or making it time-dependent.** The front end of the US yield curve outperformed in the run-up to the Minutes and fell prey to some small profit taking immediately after.

Asian stock markets are positively oriented this morning with China outperforming even as the US readies more sanctions over the security law in Hong Kong and over human-rights abuses against Muslims. The German Bund and US Note future tread water. **Today's eco calendar contains US weekly jobless claims and June payrolls.** Yesterday's ADP swings showed the difficulty to both predict and interpret the June labour market update. **Weekly jobless claims gain more importance in coming weeks. Risk sentiment will continue to set the tone for trading on other markets. We acknowledge stock market's resilience, but continue to err on the side of caution medium term.** **Technically,** the US 10-yr yield is drifting to the lower end of the 0.54%-0.78% sideways trading range. The Fed's implicit yield curve control remains at work (open-ended, unlimited QE). The German 10-yr yield bounced off first support just above -0.50%.



German 10-yr yield bounced off first support around -0.5%



US 10-yr yield returns into longstanding trend channel. Implicit Fed yield curve control at play by open-ended QE

Currencies

Dollar bid fades again

R2	1.495	-1d
R1	1.1412	
EUR/USD	1.1251	0.0017
S1	1.1167	
S2	1.0964	

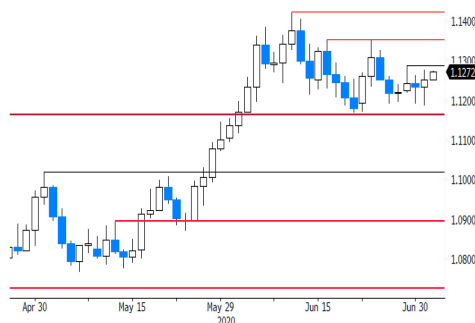
R2	0.9305	-1d
R1	0.9212	
EUR/GBP	0.9019	-0.0040
S1	0.8621	
S2	0.8569	

Global sentiment improved as yesterday’s session developed, easing the bid for the dollar. Eco data again only played a secondary role. The dollar traded strong early in Europe with the TW dollar (DXY) touching 97.60. EUR/USD filled bid below 1.12 even as EMU PMIs and German labour and retail data beat expectations. A rise in core EMU yields initially also didn’t help the euro. The dollar turn south in US dealings. Positive test results for a new corona vaccine and a solid US manufacturing ISM (52.6 from 43.1) supported an equity rebound. EUR/USD even closed with a modest gain (1.1251 from 1.1234). USD/JPY didn’t profit from the risk-on and mainly followed the broader USD decline (close at 107.47).

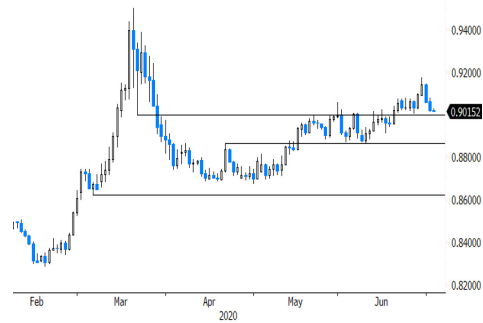
This morning, Asian equities join the risk rally from WS despite rising tensions between China and the US on the implementation of the National security law in Hong Kong and a record rise in new infections in the US. EUR/USD extends gains (1.1265 area). USD/JPY stabilizes (107.50 area) but again doesn’t profit from the risk-on. The yuan (USD/CNY 7.0675) hardly profits from yesterday USD decline even as the PBOC put the daily fix rather strong. AUD/USD regained the 0.69 barrier, with recent top levels still with reach (AUD resilience).

Today’s focus is on the US payrolls. The report will be released today as US markets are closed for the 4th of July tomorrow. Job growth is expected to recover by 3.058 mln after last month’s surprise gain of 2.5 mln. There are probably statistical issues in play that might complicate the outcome, but the consensus estimate looks reasonable. **Yesterday, the dollar declined further after a strong ISM due to the positive risk-off.** This might still be the case with a constructive payrolls report. EUR/USD settled in a ST consolidation pattern near 1.12. **The picture turned a bit more fragile but the 1.12/1.1160 support proved quite solid and this was confirmed yesterday.** We look for confirmation on an EUR/USD bottoming out process. A break above 1.1288 would give some comfort with 1.1349 next reference on the charts.

Sterling further reversed the sharp loss against the euro earlier this week. **EUR/GBP drifted further south in the 0.90 big figure.** The move was mainly technical in nature, but was also supported by rebound in UK yields. There are no UK data today. Headlines on the process of the Brexit talks again show little progress. We expect the sterling rebound to slow with EUR/GBP 0.90 area a first technical support.



EUR/USD: looking for a bottom after rejected test of 1.12 area?



EUR/GBP corrections nears 0.90 area.

Calendar

Thursday, 2 July		Consensus	Previous
US			
14:30	Trade Balance (May)	-\$53.2b	-\$49.4b
14:30	Change in Nonfarm Payrolls (Jun)	3058k	2509k
14:30	Change in Private Payrolls (Jun)	3000k	3094k
14:30	Change in Manufact. Payrolls (Jun)	438k	225k
14:30	Unemployment Rate (Jun)	12.50%	13.30%
14:30	Average Weekly Hours All Employees (Jun)	34.5	34.7
14:30	Average Hourly Earnings MoM / YoY (Jun)	-0.70%/5.3%	-1.00%/6.7%
14:30	Labor Force Participation Rate (Jun)	61.20%	60.80%
14:30	Underemployment Rate (Jun)	--	21.20%
14:30	Initial Jobless Claims	1350k	1480k
14:30	Continuing Claims	19000k	19522k
16:00	Factory Orders (May)	8.70%	-13.00%
16:00	Durable Goods Orders (May F)	15.80%	15.80%
EMU			
11:00	PPI MoM / YoY (May)	-0.40%/-4.50%	-2.00%/-4.5%
11:00	Unemployment Rate (May)	7.60%	7.30%
Italy			
10:00	Unemployment Rate (May P)	7.90%	6.30%
Belgium			
11:00	Unemployment Rate (May)	--	5.60%
Events			
10:45	Spain to Sell Bonds		
10:50	France to Sell Bonds		
15:00	ECB's Mersch Speaks in Webinar		
19:00	ECB's Schnabel Speaks in Videoconference		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	0.68	0.02		US	0.16	0.01	DOW	25734.97	-77.91
DE	-0.40	0.06		DE	-0.66	0.03	NASDAQ	10154.63	95.86
BE	-0.07	0.05		BE	-0.56	0.02	NIKKEI	22145.96	24.23
UK	0.21	0.04		UK	-0.07	0.02	DAX	12260.57	-50.36
JP	0.04	-0.01		JP	-0.13	-0.01	DJ euro-50	3228.45	-5.62
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	-0.38	0.24	0.20	Eonia	-0.4700	0.0000			
5y	-0.33	0.35	0.26	Euribor-1	-0.5120	-0.0020	Libor-1	0.1623	0.0000
10y	-0.14	0.66	0.39	Euribor-3	-0.4170	0.0050	Libor-3	0.3020	0.0000
				Euribor-6	-0.2950	0.0130	Libor-6	0.3693	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1251	0.0017		EUR/JPY	120.92	-0.32	CRB	139.14	1.17
USD/JPY	107.47	-0.46		EUR/GBP	0.9019	-0.0040	Gold	1779.90	-20.60
GBP/USD	1.2475	0.0074		EUR/CHF	1.0642	0.0000	Brent	42.03	0.76
AUD/USD	0.6915	0.0012		EUR/SEK	10.4735	0.0029			
USD/CAD	1.3587	0.0011		EUR/NOK	10.7045	-0.1073			

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